



Architectural and Engineering Consulting Firms Prequalification Indirect Cost Rate Guidelines

March 1, 2021

Annual Prequalification Audit Requirement

As part of the MassDOT Highway Division's prequalification requirements for Architectural and Engineering firms, consultants are required to submit an audit report in accordance with 23 CFR Part 172, Generally Accepted Government Auditing Standards and the Federal Acquisition Regulations (FAR 31) of their indirect costs and resultant overhead rate for their most recent completed fiscal year.

The audit report is due annually, **no later than June 1st** for consultants whose fiscal year ends on December 31st. For consultants whose fiscal year is other than the calendar year, the audit report is due 5 months after the close of their twelve-month fiscal year period. For example, for consultants with a fiscal year end of June 30th, their reports are due by December 1st of the same year. An audit period shall be for one fiscal year.

It is the consultant's responsibility to submit an audit report each year. MassDOT will not send any reminders or notices of non-compliance to consultants who do not submit audit reports to MassDOT in a timely fashion. Requests for extensions of time will be considered. A **one-time** courtesy audit will be considered for start-up firms/very small size consultants located within the Commonwealth that have not previously worked with MassDOT. These courtesy audits are conducted by the MassDOT Audit Operations Unit. Alternatively, consultants who do not submit an audit report can request a Safe Harbor indirect cost rate of **110%** for use on MassDOT contracts. For further information on courtesy audits or the Safe Harbor rate please contact MassDOT Audit Operations at 857-368-8700 or email DOT.Audit@dot.state.ma.us.

Required Audit Documents to be Submitted Annually

1. Certificate of Indirect Costs (Page 4 of this Guide). (See FHWA Memorandum HIPA-20 for guidance.)
2. Original or electronic copy of the Independent CPA Audit Report on Indirect Cost Rate with Internal Control and Compliance Reports.
3. AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers located at <https://audit.transportation.org/> (signed by company representative who completed the questionnaire).
4. Complete copy of the annual financial statements (i.e. Balance Sheet and Income Statements) including footnotes. Audited financial statements are not required.
5. Electronic file of all schedules with calculations that are contained in the audit report in Microsoft Excel.
6. Cognizant Audit Letter for firms for which MassDOT is not the cognizant audit agency. If letter has not been submitted, please state so in the submission.
7. Analysis of reasonableness of compensation as outlined in Chapter 7 of the AASHTO Uniform Audit and Accounting Guide, 2016 Edition (or later, see AASHTO website for latest edition) <https://audit.transportation.org/>.

Please e-mail required documents to DOT.Audit@dot.state.ma.us or mail to:

Massachusetts Department of Transportation
Audit Operations
10 Park Plaza, Suite 7130
Boston, MA 02116-3973

Consultants will be removed from the Architects and Engineers Review Board prequalification list for non-compliance with the annual audit requirement.

Audit Standards and Criteria Requirements

The indirect cost rate audit must meet the following requirements:

- The Audit shall be conducted by an Independent Certified Public Accountant; Federal Government or another State Highway or governmental audit agency for a one-year fiscal period.
- The complete audit report must be in accordance with the Government Auditing Standards as published by the Controller General of the United States of America, in order to be accepted.
- The indirect cost rates shall be prepared in accordance with the cost principles and procedures as set forth in 48 CFR, chapter 1, Part 31, Federal Acquisition Regulation (FAR 31).
- The consultant and their auditor shall follow the guidance of the AASHTO Uniform Audit & Accounting Guide, 2016 Edition (or later, see AASHTO Internal/External Audit website for latest edition).
- For cognizance and oversight purposes, when requested, the consultant must authorize access to their Independent Certified Public Accountant's audit workpapers for review to MassDOT Audit Operations or its designee. A review will be conducted on those consultants to whom MassDOT is the Home State Cognizant Agency in accordance with Chapter 12 and Appendix A of the AASHTO Uniform Audit and Accounting Guide, 2016 Edition (or later, see AASHTO website for latest edition).

Summary of MassDOT Audit Operations Prequalification Procedures

A letter will be sent to the consultant confirming the receipt of the submittal and whether further information is required.

For those consultants for which MassDOT is the Cognizant Audit Agency, Audit Operations shall review the submittal and approve an indirect cost rate(s) for billing purposes for proposed contracts which is valid until the due date for the next year's submittal unless an extension of

time is approved or if a CPA workpaper review is conducted. If a CPA workpaper review is conducted a cognizant letter will be issued by MassDOT.

For those out-of-state consultants who submit a cognizant audit agency letter, MassDOT Audit Operations will issue a letter approving an indirect cost rate(s) for billing purposes for proposed contracts which is valid until the due date for the next year's submittal unless an extension of time is approved.

For those consultants for which MassDOT is not the Cognizant Audit Agency and has not submitted a cognizant audit agency letter, MassDOT Audit Operations will conduct a review of the submittal following the guidance of the current AASHTO Uniform Audit & Accounting Guide. The reasonableness of compensation will be made using the criteria established in the Federal Acquisition Regulation (FAR 31) and in Chapter 7 of the AASHTO Uniform Audit & Accounting Guide. The consultant should prepare a compensation analysis in accordance with this Guide. In the absence of a compensation analysis, MassDOT Audit Operations will accept the National Compensation Matrix (NCM) for determining the reasonableness of claimed compensation costs. Additional information may be requested by MassDOT Audit Operations to complete the review.

By letter, MassDOT Audit Operations will notify the consultant of their approved indirect cost billing rate for use on proposed contracts. Consultants will be given an opportunity to comment on adjustments made by MassDOT Audit Operations to their submitted audited indirect cost rate.

Cognizance and Oversight

As provided by 23 CFR 172 and 23 U.S.C. 112, MassDOT, for prequalification purposes, will accept indirect cost rates established in accordance with the Federal Acquisition Regulation for 1-year applicable accounting periods by a cognizant Federal or State government agency, if such rates are not currently under dispute. The definition of a cognizant agency is provided in Chapter 12 of the AASHTO Uniform Audit & Accounting Guide.

As the Home State Transportation Department for the Commonwealth of Massachusetts, MassDOT intends to conduct workpaper reviews on the CPA audit workpapers of the consultants based in Massachusetts to determine if: (a) the CPA's audit was conducted in accordance with Generally Accepted Government Auditing Standards; (b) the CPA adequately considered the auditee's compliance with FAR Part 31 and related laws and regulations, and (c) the audit report format is acceptable. MassDOT will conduct these reviews using the guidance of the AASHTO Uniform Audit & Accounting Guide, 2016 Edition, Chapter 12 and Appendix A-1. Based on these reviews MassDOT will determine whether it is appropriate to issue a cognizant letter of concurrence.

Certificate of Indirect Costs

Firm Name: _____

Indirect Costs and Rate(s) for Fiscal Year Ending: _____

This is to certify that I have reviewed the indirect costs and rate(s) proposal submitted as per the MassDOT prequalification audit requirement to establish billing or final indirect cost rates for the above firm's fiscal period as specified and to the best of my knowledge and belief:

- 1.) All costs included in this proposal to establish billing or final indirect cost rates are allowable in accordance with the cost principles of the Federal Acquisition Regulations (FAR) of title 48, Code of Federal Regulations (CFR), part 31.*
- 2.) This proposal does not include any costs which are expressly unallowable under the cost principles of the FAR of 48 CFR 31 or its supplements. All known material transactions or events that have occurred affecting the firm's ownership, organization and indirect cost rates have been disclosed.*
- 3.) All costs included in this proposal are properly allocable to Government contracts on the basis of beneficial or causal relationship between the expenses incurred and the contracts to which they are allocated in accordance with applicable acquisition regulations. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs and that similar types of costs have been accounted for consistently.*

I declare that under the pains and penalty of perjury that the foregoing is true and correct.

Signature: _____

Name of Certifying Official (Print): _____

Title: _____

Date of Certification: _____